UNITED
NATIONS

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Security Council

Distr.
GENERAL

S/1998/1104
20 November 1998

ORIGINAL: ENGLISH

LETTER DATED 20 NOVEMBER 1998 FROM THE CHAIRMAN OF THE SECURITY COUNCIL COMMITTEE ESTABLISHED BY RESOLUTION 661 (1990) CONCERNING THE SITUATION BETWEEN IRAQ AND KUWAIT ADDRESSED TO THE PRESIDENT OF THE SECURITY COUNCIL

I have the honour to transmit herewith, pursuant to paragraph 14 of Security Council resolution 1153 (1998), a report of the Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait (see annex). The report, covering the Committee's activities in relation to the implementation of the relevant arrangements under Council resolution 986 (1995) during the second half of phase IV after the date of entry into force of paragraph 1 of resolution 1153 (1998), was adopted by the Committee on 20 November 1998.

(Signed) António MONTEIRO
Chairman
Security Council Committee established by
resolution 661 (1990) concerning the
situation between Iraq and Kuwait

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Annex

Report of the Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait on the implementation of the arrangements in paragraphs 1, 2, 6, 8, 9 and 10 of resolution 986 (1995)

I. Introduction

1. The present report is submitted to the Security Council pursuant to paragraph 14 of resolution 1153 (1998), by which the Committee was requested, in close coordination with the Secretary-General, to report to the Security Council prior to the end of the 180-day period on the implementation of the arrangements in paragraphs 1, 2, 6, 8, 9 and 10 of resolution 986 (1995). This report, the eighth of its kind, covers the Committee's major activities with regard to the implementation of the above arrangements during the second 90-day period of phase IV of the oil-for-food programme after paragraph 1 of resolution 1153 (1997) came into force on 30 May 1998.

II. Sale of Petroleum and Petroleum Products

2. Since the beginning of phase IV, the export of petroleum from Iraq has proceeded smoothly, with excellent cooperation among the oil overseers, the independent inspection agents (Saybolt), the Iraqi State Oil Marketing Organization and the national oil purchasers.

3. The overseers continue to advise the Committee on the pricing mechanisms, contract approval and modifications, management of the revenue objective and other pertinent questions related to export and monitoring under Security Council resolutions 986 (1995), 1153(1998) and 1175 (1998).

4. As of 20 November 1998, the overseers had reviewed and approved a total of 55 contracts, involving purchasers from 27 countries. Five contracts were approved directly by the Committee and one contract was canceled by the Committee. Another contract remains pending due to the lack of supporting documentation. The total quantity of oil approved for export under those contracts corresponds to approximately 308 million barrels for phase IV. All contracts submitted employed the pricing mechanisms approved by the Committee on the recommendation of the overseers, with one exception requiring a pricing mechanism for a new destination. This has still to be submitted by the State Oil Marketing Organization (SOMO) of Iraq for the Committee's approval. That contract is therefore still pending.

5. As of 20 November 1998, 243 liftings totalling 296.7 million barrels with a value of US$2,935 million have been completed. Letters of credit opened for each of the liftings were reviewed and confirmed by the overseers upon compliance with the terms and conditions of the contracts approved. About 50 per cent of the liftings were made at Ceyhan in Turkey. The largest share of the volume lifted went to Europe. At current low prices, total revenue for the whole phase IV is estimated around US$3.1 billion (including the pipeline fees).

6. The overseers and the Saybolt agents deployed to monitor oil loadings and transfers have worked closely to ensure the effective monitoring of the relevant oil installations as well as the liftings. For the second consecutive year they continue to receive the full cooperation of the Iraqi authorities.

7. Pursuant to paragraph 2 of the Procedures of the Committee (S/1996/636), 299 national oil purchasers have been nominated by 48 countries who are authorized to communicate directly with the overseers.

8. Pursuant to paragraph 14 or the Procedures of the Committee, the overseers have continued to report to it once a week on the contracts concerning the sale of petroleum originated in Iraq, including the cumulative quantity and approximate value of petroleum authorized for export. To date, 99 such reports have been submitted to the Committee.

III. Export of Humanitarian Supplies to Iraq

9. As in the previous phases, the Committee continued to attach high priority to the work of processing contracts for supplying humanitarian goods to Iraq during the second 90-day period of phase IV.

10. As of 20 November 1998, the Secretariat have received a total of 769 applications under phase IV for exports of humanitarian supplies to Iraq, totalling approximately US$1.97 billion. Five hundred and eighty-six of these contracts with a value of US$1.54 billion have been circulated to Committee members for action, 165 are still being processed with a value of US$430 million and 18 have been subsequently canceled. Of those sent to the Committee for consideration, 547 are found eligible for payment from the United Nations Iraq Account, totalling approximately US$1.39 billion; 33 applications have been placed on hold with a value of US$147.5 million and 6 applications, valued at US$3 million, are pending under the "no-

objection" procedure. Of the 547 applications which are found eligible for payment from the Iraq Account, 483 letters of approval have been released based on the availability of funds and the remaining 64 are still waiting for sufficient funds to become available in the Iraq Account.

11. The work of goods-arrival-confirmation by the United Nations independent inspection agents (Lloyd's Register) has been going on at the four entry points in Iraq at Umm Qasr, Trebil, Zakho and Al-Walid. On 13 November 1998, upon the unilateral decision taken by Lloyd's Register, the independent inspection agents have been withdrawn from their posts in Iraq. They resumed their work on 16 November 1998. As in previous phases, the Iraqi authorities have accorded the independent agents full cooperation in their work. By 20 November 1998, 1,835 consignments of humanitarian supplies under phase IV have been confirmed as having arrived in Iraq in total or in partial shipments.

IV. Efforts by the Committee to Expedite Deliveries of Humanitarian Goods to Iraq

12. At the beginning of phase IV, the Committee agreed to introduce a simplified procedure with regard to applications for foodstuffs by which the Committee decided to confer upon the Secretariat the authority to determine whether applications for foodstuffs were in order under the established guidelines and points of understanding and submit them for approval to the Chairman of the Committee in accordance with the conditions set out in the guidelines and points of understanding (appendix to S/1998/336). As stated in the Committee's 90-day report under phase IV (S/1998/813), because of the lack of a pricing mechanism to be submitted by the Government of Iraq and approved by the Committee, the above-mentioned arrangement remains to be implemented and applications for foodstuffs have been processed according to the standard procedures. This situation remains unchanged to date.

13. The issue of reimbursement of the 53 per cent account from the 13 per cent account for joint purchases continues to be an increasing concern for the Committee and the Secretariat. As at 20 November 1998, the amount to be reimbursed from the 13 per cent account to the 53 per cent account totals US$229 million. The Committee has considered the issue on a number of occasions, the last of which during its 175th meeting on 28 October 1998 on the basis of the report by the Executive Director of the Office of the Iraq Programme, in which he announced that he would make a proposal on the issue by the end of December 1998, while ensuring that deliveries of humanitarian supplies are made to three northern governorates.

14. In accordance with a decision taken by the Committee, two informal meetings took place

on the issue of holds, which proved to be useful to the members of the Committee in order to facilitate the approval process of oil spare parts contracts.

V. Matters relating to Oil Spare Parts and Equipment to Iraq

15. With the adoption of resolution 1175 (1998) on 19 June 1998 by which the Security Council authorized States to permit, notwithstanding the provisions of paragraph 3 (c) of resolution 661 (1990), the export to Iraq of the necessary parts and equipment to enable Iraq to increase the export of petroleum and petroleum products, in quantities sufficient to produce the sum of $5.256 billion, the Committee began on 8 July 1998 the process of approving contracts for the import by Iraq of oil parts and equipment according to lists approved by the Committee for each individual project, within the framework of a total sum of US$300 million earmarked for that purpose. Meanwhile, the Office of the Iraq Programme developed, as requested by the Committee, a monitoring system which would enable the United Nations to keep track of the spare parts from their import to utilization. The Committee welcomed the work of the Secretariat, Saybolt and the overseers in order to facilitate the approval process of oil spare parts contracts.

16. As of 20 November 1998, the Secretariat has received a total of 355 applications to ship oil spare parts and equipment to Iraq under resolutions 1153 (1998) and 1175 (1998). Except for 40 which are being reviewed by the experts in the Secretariat or have been returned to the applicant Missions for further information/clarification or correction, 274 have been circulated to the members of the Committee for their consideration. Of those circulated, 152 applications have been approved with a total value of US$102.8 million; 105 applications with a value of US$44 million have been placed on hold and 17 applications are still pending under the "no-objection" procedure. The Committee will continue its effort to speed up the approving process of such contracts.

VI. Conclusions

17. The Committee will continue to work, in close coordination with the Office of the Iraq Programme, towards effective implementation of all relevant arrangements under the oil-for-food programme. The Committee wishes to express its appreciation once again to all parties concerned for their cooperation and contribution in this respect.